

Welcome to a presentation developed by the Assets for Independence Resource Center. This presentation is Encouraging Participants to Plan: Budgeting Methods.

This is one of several presentations developed for AFI grantees on a variety of financial education topics, including Savings and Investing, Credit Reports, Credit Scores, Working with Income Tax Preparation Sites and Reducing Home Energy Costs. More information about these other presentation and other useful materials from the AFI Resource Center is available at the end of the show.

Purpose of Presentation

- Provide an overview of budgeting and budgeting tools readily available to IDA participants
- Offer guidance for participants choosing a budgeting method
- Suggest tips for successful money management

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The purpose of this presentation is to provide an overview of budgeting and budgeting methods readily available to IDA participants. The cornerstone to a successful IDA program experience is learning how to manage finances. Creating a budget that is easy to use will inspire IDA participants to use it frequently.

Budgeting methods work best when the tool fits the IDA participant. The presentation will offer guidance for program staff to provide information for participants to choose a method that is most suited to their style of tracking finances and some tips about maintaining that budget.

Why Use a Budget?

- A budget is a “roadmap to financial success”
- It can help you:
 - Control your spending, especially impulsive spending
 - Know where your money goes in order to meet your financial obligations
 - Determine what you can and can't afford
 - Save for emergencies and other financial goals



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A budget is an important tool that can be your “roadmap to financial success.”

A budget is simply a plan for how you will get, save and spend your money.

Using a budget can have many benefits, including:

- Controlling your spending, especially over-spending or impulsive spending
- Knowing where your money goes in order to meet your financial obligations
- Determining what you can and can not afford
- Helping you save for emergencies and other financial goals such as education, retirement or big purchases

Overcoming Obstacles to Budgeting

Developing a budget can be hard, but you can help IDA participants by:

- Helping them understand the trade-offs related to their spending choices
- Focusing on their financial goals and how to get there
- Simplifying choices and providing helpful tools
- Setting up systems for automatic savings and payments

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There are many obstacles to setting up and living within a budget.

Developing a budget can be hard but you can help IDA participants by:

- Helping them understand the trade-offs related to their spending choices;
- Focusing on their financial goals and how to get there;
- Simplifying choices and providing helpful tools; and
- Setting up systems for automatic savings and payments.

How to Develop a Budget?

To develop a budget, you need to know:

- Your income
- What are your **fixed expenses** (which stay the same every month) and
- What are your **variable expenses** (which change from month to month)



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To develop a budget, you need to know:

- Your income. It is important to understand how much money you have to work with in your budget.
- What are your fixed expenses (in other words, those expenses which stay the same every month) and
- What are your variable expenses (or those expenses which change from month to month)

How to Develop a Budget?

- Understanding your income—sources, amounts and frequency
- Getting a handle on your past month's expenses
- Look through your past purchases:
 - Bills
 - Receipts
 - Checking account transactions
 - Credit card statements
 - Credit report
 - Daily spending diary



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The first step in developing a budget is collecting the information about the income that comes into your household. It is the same amount every paycheck? Or does the amount change from paycheck to paycheck? How often do you receive income? Do you have other sources of income besides wages from work?

Use your paycheck stubs and deposit records if you have a bank account to get an accurate picture of the amount of income you have coming in. If you receive cash for the work you do, you may have to guesstimate. Going forward, keep track of your income in a notebook so you can see how much you are making from your work.

The second step is collecting information about your expenses over the past 1-2 months. While some may try to create a budget from memory of what was paid on necessities and other purchases, reviewing actual documents for information provides a more accurate picture of spending patterns.

The easiest places to find this recent spending information is with bills and receipts.

A review of checking account transactions from a register, bank statements, or online banking also provides a flow of income and spending patterns. Credit card statements can also be an important source of spending information. A review of credit reports should be included in the data evaluation so that debts that would not be otherwise captured can be accounted for in the budgeting process.

To help figure out daily cash use patterns, a daily spending diary captures the what,

when, where, and how much was spent each day on items such as an unplanned lunch during work hours, coffee at coffee shop, library fines or some items at the local grocery store.

Setting Up a Simple Budget

- Identify spending categories such as rent, utilities, gas, food, etc.
- List monthly expenses for each category:
 - **Targeted** income and expenses as well as
 - **Actual** income and expenses
- Track the difference between actual and targeted income and expenses
- Allow room for memos and notes

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Once you have a clear sense of how much you make and spend, you can set targets—this is the budget. It's about identifying ways to change your spending OR your income so you can reach your goals.

A budget can be set up in daily, weekly, or monthly formats. As part of the money management education process, each participant gains insight on how he or she will best manage money. For some, daily monitoring method is best, for others, a weekly or monthly tracking system works just as well for their money management efforts.

You can start by setting up different categories for expenses such as rent, utilities, gasoline, food, etc. Within each of these categories, the budget should list income and expense targets. These targets reflect past income and spending records as well as expected future expenditures.

Actual income and expenses are written down as the transactions occur.

The difference between the targeted amounts commonly called projections and the actual income and expenses should be calculated to determine if participants are on track with planned spending.

It's also helpful if there is a place for memos and notes. These comments will provide additional information and insight on the successes or challenges faced with spending on a particular item or the general condition finances during the time period.

Budgeting Tips

- Many sources of sample budget worksheets are available online
- Make sure you account for seasonal and unexpected changes in income and expenses
- Ensure you account for periodic expenses
- Be specific and realistic
- Review, update and adapt your budget regularly
- Build the budget to reflect your financial goals

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It's easy to find sample budget worksheets online. These worksheets can help by simplifying the process of setting up a budget with identified categories for expenses.

Make sure you account for seasonal and unexpected changes in income and expenses. It's important to be both specific and realistic in setting up a budget.

Also remember to account for periodic expenses like renter's insurance, taxes or back to school expenses.

Review, update and adapt your budget regularly. And build your budget to reflect your financial goals such as buying a big purchase, saving for a vacation or going to college.

Whatever budgeting method is chosen, the tool should be convenient, easy to use, and provide a level of satisfaction so that users will visit the budget frequently.

Sticking to a Budget

- Sticking to a budget requires regular attention and willpower
- It's important to communicate with other household members about the budget
- Be prepared to compromise on some issues
- Provide incentives to family members and celebrate success when you live within your budget

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Sticking to a budget requires regular attention and willpower. Having clear financial goals help remind you and others why you have a budget.

If you live with others, it's important to communicate with other household members about larger goals and the budget. At times, you'll need to be one to say "no" to impulsive purchases, but other times, you'll need to be prepared to compromise.

Sometimes it helps to provide small incentives (such as a low-cost treat) to family members if they live within the budget each week or month, and it's important to celebrate success as you achieve your goals.

Budgeting Methods

Budgeting methods include:

- Manual
 - Paper worksheets
 - Envelopes
- Electronic
 - Computer-based software
 - Online applications
 - Applications for smart phones



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There are a variety of budgeting methods available to IDA participants.

Manual methods are low cost and provide easy access to the user. They can be updated anytime and anywhere. These budgets are usually created and updated using paper worksheets and carried in a notebook. You can also use an envelope system. More on these methods in a minute.

Electronic methods take several forms. Budgeting methods can be based on a computer with either spreadsheet, purchased software, online platforms or downloaded templates. These methods are formatted much like the manual methods but will require a computer and in some cases Internet access.

The software can be purchased through an online service or uploaded into a cloud computing website. There are also a number computer and smart phone applications or apps that assist in maintaining a budget.

Manual Budgeting Methods

Notebook

- Flexible
- Creative
- Low cost



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Notebooks, formatted charts, calendar and the envelope method are low-cost, low-tech budgeting methods.

A notebook allows the participant the flexibility to create a format that is most useful for him or her to use. Whether it is a list, a chart, or graphic expression, the participant can design the format of the budget. All elements of the budget essentials can be adapted in a notebook.

Formatted Chart Example

MONTHLY BUDGETING CHART			
Monthly Income		Monthly Expenses	
Your Pay	\$	Rent or Mortgage	\$
Spouse's Pay	\$	Utilities (Phone, gas, electric, cable, etc.)	\$
Bonuses	\$	Insurance (home, auto, life, health, etc.)	\$
Commissions	\$	Food	\$
Tips	\$	Incidental Home (paper products, non-food items, etc.)	\$
Interest Received	\$	Clothing	\$
Investment Earnings	\$	Auto (gas, tolls, maintenance)	\$
Rental Income	\$	Debt Payments (auto, credit cards, phone cards, etc.)	\$
Pensions/Annuities	\$	Child Care	\$
Social Security Income	\$	Health (medical, dental, eye, etc. not covered by insurance)	\$
Alimony Received	\$	Taxes (not taken out of paycheck)	\$
Child Support Received	\$	Gifts (charities, church, holidays, birthdays, etc.)	\$
Other Income	\$	Entertainment (movies, vacation, video, etc.)	\$
	\$	Personal Allowances	\$
	\$	Other Expenses	\$
	\$		\$
	\$		\$
	\$		\$
Totals	\$		\$

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Formatted charts are a way of formalizing the budget sheet. A budget worksheet can be downloaded from the Internet and copied many times over and filed in a loose-leaf binder.

This is an example of a formatted chart. It has a list of common household expenses and is set up for monthly updates. As with all budget methods, the participant can add categories not included in the formatted chart. A participant can copy 12 sheets to use each month and create an annual budget.

Calendar Budget Example

BudgetByExample.com Personal Budget Calendar

April 2009						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
Rent \$1100 / Sat Phone \$75 / 9th Utilities \$200 / 10th Car \$300 / 15th Cable \$99 / 17th Car Ins \$100 / 18th CC #1 \$150 / 18th CC #2 \$75 / 22nd	Grocery \$600 Gas \$200 Entertainment \$100 Take Out \$150		Rent \$1100			Grocery \$150 Gas \$50 Entertainment \$25 Take-Out \$37.50
5	6	7	8	9 Phone \$75	10 Utilities \$200	11 Grocery \$150 Gas \$50 Entertainment \$25 Take-Out \$37.50
12	13	14	15 Car Payment \$300	16 Car Ins \$100	17 Cable \$99	18 CC #1 \$150 Grocery \$150 Gas \$50 Entertainment \$25 Take-Out \$37.50
19	20	21	22 CC #2 \$75	23	24	25 Grocery \$150 Gas \$50 Entertainment \$25 Take-Out \$37.50
26	27	28	29	30		

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Placing income and expense information on a calendar presents a visual expression of cash flows. Timing income to coincide with expenses helps the participant prepare for timely bill payment. Note that the upper left corner of the calendar lists the expected income and expenses. The income is posted on the days that it is expected and the expenses are listed according to due date. For expenses the user can post them on the actual due date, the date that it should be mailed, or the day that an online transaction must occur.

The budget shown is from an electronic version but manual versions work the same way.

Create an Envelope Budget System

- Write the name of each budget category on separate envelopes
- Place the cash for each budget category in the appropriate envelope
- Use the money in the envelope to pay the expense
- Use the envelope to document cash additions and withdrawals
- Transfer cash between envelopes to address overages and shortages

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The envelope method allows the participant to allot their money for each expense category in an envelope.

To create an envelope system, here's what you do:

- On separate envelopes, write the name of each budget category
- Place the cash for each budget category in the appropriate envelope
- When it is time for the expense to be paid, the funds in the envelope should be sufficient to make the payment or purchase when it is needed.
- The outside of the envelope can be used for documenting cash additions and withdrawals
- Overages and shortages are managed by transferring cash between envelopes.

Note that this is designed as a cash budgeting method. There are adaptations to this method for check writing or participants who use money orders or to track receipts. There are also online versions of the envelope system, too.

Computer-Based Budgets: Spreadsheets

The image shows a screenshot of a personal budget spreadsheet. The spreadsheet is organized into several sections, each with a blue header. The sections include:

- Personal budget**: The main title of the spreadsheet.
- Income**: A section for tracking various income sources, including Social Security, Pension, Dividend Income, and Other Income. It includes columns for each month and a total column.
- Living Expenses**: A section for tracking monthly expenses, including Rent, Utilities, Food, Transportation, and Entertainment. It includes columns for each month and a total column.
- Savings**: A section for tracking savings contributions, including Savings, Investments, and Other Savings. It includes columns for each month and a total column.
- Debt**: A section for tracking debt payments, including Mortgage, Car Loan, and Other Debt. It includes columns for each month and a total column.

The spreadsheet uses a color-coded system with blue headers and alternating row colors to distinguish between different categories. The data is organized in a clear, structured manner, allowing for easy tracking and analysis of personal finances.

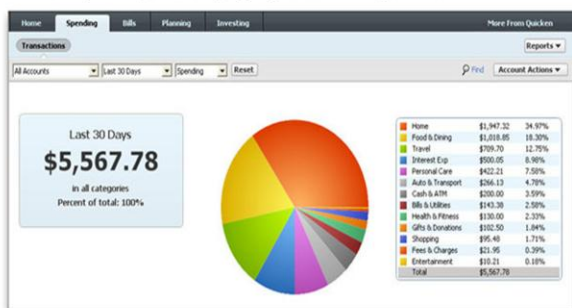
Spreadsheet software

- Create a budget format
- Download a template
- Customize for use

Any spreadsheet software available on a home computer is suitable for creating an easy to follow and maintained budget. The participant can create a budget format or download a template from a reliable website such as the computer software manufacture's support website. The example here is a Microsoft Excel Spreadsheet downloaded from the Microsoft Template website. The participant can add categories to the sheet to suit personal budget requirements.

Budgeting Software

See exactly where your money's going with auto categorization!



Budgeting software

- Bought from store or
- Downloaded from a website
- Quicken or IBank

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Purchased software such as Quicken or IBank can be bought from a retail outlet or downloaded from a website.

In addition to the standard budget features, these software packages allow downloads from online banking systems. This allows the participant to update actual transactions from savings, checking, and credit card accounts. Additional features include charts and graphs to represent spending patterns, the ability to customize categories, and capability to download transactions to purchased tax preparation software.

This method works well for IDA participants who have a small business and are looking for a better way to manage business finances.

Electronic Online Budget

- Spreadsheets on website
 - Can be uploaded from computer or created online (e.g., Google docs)
- Virtual budget on budget website
 - Data entered by participant
 - Data downloaded through bank account access
 - Examples are Mint.com or Wesabe.com

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For budgets that can be accessed by any computer, spreadsheets on cloud computing sites such as Google Docs will provide access to a single budget from multiple computers. The budget can be created with spreadsheet software on the participant's computer or using the cloud-computing site. This may help participants that are sharing budgets with household members give timely updates on spending.

Virtual budgets on budgeting websites such as Mint.com and HelloWallet.com allow participants to link financial accounts and a virtual budgeting system. Financial data is downloaded from the participant's financial institutions including savings accounts, checking accounts, credit accounts, and investment accounts. A budget and spending report helps participants monitor their spending. There are blogs and question and answers pages within the websites to answer questions on finances as well as customer support to help with technical questions on using the site.

Data Security Tips

- Do not use public computers or WiFi Hotspots
- HTTPs in URL Address indicating secure server
- Secure private WiFi and private computers are okay



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Secure private WiFi and private computers are essential in data security and identity theft prevention when using any computer based budgeting system.

It is important to note that the virtual budgeting sites require that the participant enter account numbers, passwords, and answers to security questions to set up the account. Before setting up the account, make sure that the connection is secure. As with any financial website, these sites should not be accessed at a public computer at a community computer center, library, at place of employment, or public WiFi hotspot.

Electronic Applications for Phones

- Applications available for smart phones and computers
- Used as a convenience to update a computer-based budget system
- These apps are free or cheap



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Smart phone applications or apps as they are called are designed to support other budgeting methods by allowing the participant to input and save budgeting information for later updates on a computer. Most apps are designed to complement purchased or free virtual software and are not complete budgeting tools. Paying for a budget app should be discouraged.

How to Choose a Budgeting Method

- No one size fits all
- Easiest to understand for the participant
- Suited to participant's resources
- Can be best maintained by the participant

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In assisting IDA participants in choosing a budget method, it should be noted that no method is one size fits all. The purpose of the budget is to track personal finances so the person can achieve her goals. Participants must play a role in the decision on which budgeting method to use.

The budget method selected should be the easiest for the participant to understand. Any system that is too complicated will be abandoned.

The budget method should be suited to the participant's resources. If the participant does not have a computer available to update and review the budget at will, a manual method should be selected. Portable methods work well for some participants while a desk based method works better for others.

The best budget method for a participant is one that he or she can easily maintain. Any difficulty in accessing the method or keeping up with the data entry or analysis will cause the method to be useless.

How to Choose a Budgeting Method

- Can be reviewed so that counselor can assist with challenges
- Use caution if asked to enter personal information for online templates and budgets
- Discourage storage of personal information such as name, address, account numbers, and passwords on online websites

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The participant and counselor must be able to review the contents of the budgeting tool together so that the counselor can assist the participants with challenges. Any method with a printing function is helpful so that the budgets can be printed out occasionally and reviewed by other family members or counselors.

There are many websites with budgeting resources on the Internet. Some of these sites are free but require that the participant enter personal information for access. These websites should be avoided. There are enough websites that offer free templates and information that do not request name, address, account numbers, and passwords. Social security numbers are never required for information on the Internet. Avoid sites that ask too many questions.

Participants must avoid storing personal information such as name, address, account numbers and passwords on cloud computing services. Make sure the sharing options provide the optimum privacy for spreadsheets.

How to Choose a Budgeting Method

Ask the participants to discuss a favorite budget tool

- Participants may have tools that work for them that is easy for other to adapt
- This discussion builds a supportive community within the group around budget issues

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Not all IDA participants are unfamiliar with creating a written budget. Some participants have creative systems that they can share with the group. These methods may be successful for others in the group.

Other Budgeting Resources

- Microsoft Excel Budgeting Templates
- Calendar Budget – [Budget by Example](#)
- Quicken.com
- Microsoft Money
- Mint.com
- Hello Wallet

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- [Http://office.microsoft.com/en-us/templates](http://office.microsoft.com/en-us/templates)
- [Http://www.budgetbyexample.com/calendar.html](http://www.budgetbyexample.com/calendar.html)
- [Quicken.com](#)
- [Microsoft Money](#)
- [Mint.com](#)
- [Hello Wallet](#)

A presentation slide with a blue header and footer. The header contains the text "Have Questions?". The main content is enclosed in a light blue box with a black border. Inside this box, the text reads "AFI Resource Center", "Hours of Operation: Monday – Friday, 9:00 a.m. to 5:00 p.m. EST", "Email: info@idaresources.org", and "Phone: 1-866-778-6037". The footer contains the text "AFI Resource Center".

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If you have questions, the AFI Resource Center is available to provide one-on-one technical assistance regarding all your project implementation needs. To reach us, call 1-866-778-6037 or email info@idaresources.org.

You can also visit the AFI Resource Center Website at www.idaresources.org.

From this website, you can find many resources in financial education issues, including other presentations in this series.